James B. Lee, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION BOARD OF TRUSTESS

DATE: MAY18, 2006

PLACE: SALT LAKE CITY, UTAH

ATTENDING:

BOARD	STAFF
James B. Lee	Kevin S. Carter
Michael Morris	Dave Hebertson
John Ferry	Kay Burton
Gayle McKeachnie	Lisa Schneider
Vernal Mortensen	Ron Carlson
Jim Eardley	Tom Faddies
John Scales	LaVonne Garrison
	Kurt Higgins
	John Andrews
	Kim Christy
	Ric McBrier
	Jeff Roe
	Rodger Mitchell
	Curt Gordon
	Elise Erler
	Will Stokes
	Rick Wilcox
	Michelle McConkie
	Cory Beardall
	Effie Burns
	Lynda Belnap

OTHERS IN ATTENDANCE
Michael Brown
Paula Plant, State Office of Education
Terrah Anderson, Governor's Office of Planning & Budget
Kimble Blackburn, Sandstone Enterprises
Page Van Loben, Earth Energy Resources
Randy Butters, Butters Invesrtment

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Chairman Lee welcomed Board members, Staff, and others to the meeting.

1. Welcome and Introduction of New Board Members

Chairman Lee welcomed newly appointed Board members - - John Scales, who will replace Ross Matthews, and Michael Brown, who will replace Vernal Mortensen at the end of his term. Chairman Lee administered the oath of office to Mr. Scales. Chairman Lee asked Mr. Scales to give Staff and Board members some background on himself. Mr. Scales is currently the Chief Officer of the Oil and Gas Exploration Unit at Flying J. Mr. Brown also gave the Board some insight to his background. He is currently employed at Graymont Western.

2. Approval of Minutes

Mr. Morris asked that some words be changed somewhat on Pages 22 and 27 regarding his conflict on interest in the Cross Hollow issue. With these amendments, the Board approved the minutes.

Ferry / McKeachnie. Motion approved.

"I move we approve the minutes as corrected."

Roll Call:

Ferry - - yes	McKeachnie - - yes
Morris - - yes	Eardley - - yes
Mortensen - - yes	Scales - - abstained
Lee - - yes	

3. Confirmation of Upcoming Meeting Dates

Director Carter asked the Board if they would prefer to have dinner after the Tabby Mountain Tour next month at a nearby cabin or go directly to Roosevelt and hold an open house for local officials, etc. The Board felt they would like to hold an open house. The Board approved the following upcoming meeting dates, which included a change in the original September dates:

June 28, 29 - - Tabby Mountain/Roosevelt
July - - No meeting
August 10 - - Salt Lake City
September 14, 15 - - St. George

4. Initial Consideration of Request For Agency Action and Appeal of Final Agency Action of Timber Sale Contract TA 746 - - Intermountain Resources, LLC - Order For Continuance

Chairman Lee indicated this issue is in the process of being settled. He has signed an Order on behalf of the Board for continuance for no specific length of time.

5. Adoption of FY 2007 Working Budget

Director Carter explained the budgeting process to the Board. The statute requires us to deliver a budget to the Governor by October 1. In September we bring a budget recommendation to the Board. The Board adopts a budget, and we take it to the Governor. Our budget is then built into the state budget for submission to the legislature. We then go through the legislative budgeting process. Our appropriation sub-committee presents its recommendation to the Executive Appropriations Committee. This year they recommended the same budget that was adopted last year early in the session. We went into the budget session carrying the burden of the audit and proving the need for the increases we requested. We received most of our budget, but were not funded for a couple of positions we had requested. The legislature passed a state budget that included our budget, which is two numbers in the state budget. Our practice has then been to bring the budget back to the Board in May for approval of an actual working budget, since it was so far in advance when the budget was originally approved.

We have now gone through all of those steps and are suggesting today what would be a good working budget. The Board reviewed the material regarding the budget requested. Total operating expenses for FY 2006, as to what we anticipate spending this fiscal year, are $7,361,000. For FY 2007 we are suggesting a working budget of $8,550,330. The Board actually originally approved a budget of $8,739,600 , and that amount was appropriated.

Director Carter reviewed with the Board in detail each of the working group budgets. In the Mineral section, we have an expense called PL 105 - - Public Law 105. This is money we receive for management of the coal we received in the Grand Staircase-Escalante Exchange. This is $75,000 in FY 07. The Minerals working budget is $1,073,430 compared to the appropriated budget of $1,192,700. The Legislature also approved a COLA for all employees. That shows in our budget as an increase over and above the budget the Board approved.

5. Adoption of FY 2007 Working Budget (cont'd)

Director Carter reviewed with the Board what each of the categories contain. He noted that we build into the sales budget the $3 million target, but always exceed that number when actually sold. The Board has had some previous discussion of whether this should be raised or not. He noted the Board originally set the sales target at $4 million. There was then a concern that we were "harvesting the low-hanging fruit". Therefore, the Board lowered that to $3 million, as they felt that was a good sustainable number. Mr. McKeachnie stated possibly we should be looking at land that will never be worth anything and getting it out of our inventory. Director Carter reviewed the process the Staff goes through on deciding to move a piece of property to the market. It was felt by the Board that this actually should be an agenda item for further discussion at a later meeting. Director Carter noted that the sales program will be discussed at length in next year's objectives.

Mr. Lee suggested that the Legislative audit be provided to the two new Board members. Staff will send them a copy.

In the Director's budget, the working budget is $100,000 less than the actual appropriated budget. We keep that "extra" is reserve in case we need it for the exchange process. Mr. McKeachnie stated it would be interesting to see the percentage in each of these categories for about five years to be able to see what the costs, etc., are.

Eardley / Scales. Unanimously approved.

> "I move we approve the working budget as recommended."

Roll Call:

Ferry - - yes	McKeachnie - - yes
Morris - - yes	Eardley - - yes
Mortensen - - yes	Scales - - yes
Lee - - yes	

6. Hidden Valley Coal Other Business Arrangement

This item was postponed.

7. Consideration/Approval of Board Policy 2006-03 - - Real Estate Development on Trust Lands

Chairman Lee noted this was sent by e-mail to Board members after the last meeting for comment on this policy. The policy, which shows changes received, is as follows:

The Board of Trustees
of the
School and Institutional Trust Lands Administration

☒ *New Policy* ☐ *Amends Policy No.* ☐ *Repeals Policy No.*

Policy Statement No. 2006-03 *Subject:* *Real Estate Development on Trust Lands*

The Board of Trustees of the School and Institutional Trust Lands Administration met in open, public session on May 18, 2006, and by majority vote declares the following to be an official policy of the Board:

The Development Program is a significant departure from traditional public land-management activities. As such, it has inherent risks not usually experienced in government coupled with significant potential to generate revenue. In order to manage the risk associated with real-estate development while extracting the [higher] highest values possible, the Board of Trustees adopts the following policy:

1. Development transactions [must be transparent] should allow for appropriate scrutiny. [and f] Financial analyses should be conducted to justify dedication of land and capital resources to the transactions.
   a. Prior to engaging in a development project, the Administration will establish an initial land/asset value, consistent with prevailing market conditions.
   b. Economic analyses to determine the level of development activity, if any, will compare the anticipated Present Value of the proposal with the initial land/asset value.
   c. All economic analyses performed by the Administration will use a consistent and justifiable discount rate of return.
   d. The Administration will document direct and indirect costs associated with development projects in order to provide reliable data to evaluate project performance.
   e. After initial review or approval by the Board of Trustees, the Administration will provide periodic status reports of the project.

7. Consideration/Approval of Board Policy 2006-03 - - Real Estate Development on Trust Lands (cont'd)

2. Recognizing that each parcel of property and each development opportunity will have different internal and external characteristics, the Administration will choose the development methodology best suited for that particular project.

3. Unless review and concurrence are provided by the Board of Trustees, development transactions will take advantage of competitive processes prior to selecting and engaging development partners or buyers. After selection of a development partner, the Administration may continue to engage in negotiations to refine the proposal to protect the interests of the beneficiaries.

Director Carter noted that, under 1-b, the word "Net" should be taken out. Chairman Lee asked for any questions from the Board. Mr. Morris asked if Mr. McKeachnie was satisfied with the "transparent" language as per his comments of last month. Mr. McKeachnie asked what is meant by Staff by that language? This means to Staff that the appropriate aspects of the transaction that could be public are available for their review. Director Carter stated Staff will redraft our rules to comply with this new policy. The Board has to concur in any rules before they are published.

Morris / McKeachnie. Unanimously approved.

"I move we approve this as amended."

Roll Call:

Ferry - - yes	McKeachnie - - yes
Morris - - yes	Eardley - - yes
Mortensen - - yes	Scales - - yes
Lee - - yes	

8. Chairman's Report

a. Beneficiary Report

Ms. Paula Plant gave the Board an update on the CLASS issues. She showed the Board CLASS' website. She indicated the Board should have received an invitation to the CLASS conference in July, which is being held at the same time as the Western States Land Commissioners Association conference in Sheridan, Wyoming, July 16-19.

CLASS is a beneficiary organization that operates in a similar manner as the WSLCA among states. The website includes a listing of the original acres for each state and what is now left. This was done to show legislators this is national in scope and should be of concern to all states.

Last year they started a research project with the Sonoran Institute. It is nearing completion now. Ms. Plant believes they will have a report that will be useful and meaningful to others. It will be on CLASS' website.

Ms. Plant thanked the Board and Staff for the fine work they do and expressed the appreciation of the beneficiaries.

b. Follow-up Report to Board Actions

I. Dixie Downs Commercial

Mr. McBrier stated we had a proposed shopping center transaction with AmSource on this property. After working on this for a long time, we have concluded we are not going to go forward on this transaction. We recently put out an RFP on this property. Proposals are due the end of this month. Our goal is to keep this in our port folio and not sell it. Values have gone up since we started working with AmSource.

8. Chairman's Report (cont'd)

b. Follow-up Report to Board Actions (cont'd)

II. Report on Salt Dome Property

Mr. Andrews gave the Board a report on this through a power-point presentation as follows:

Background:
* As part of Grand Staircase and West Desert Land Exchange negotiations, agency looked for mineral opportunities on federal land to acquire.
* Examples:
    * Continental Lime/Graymont Western limestone claims
    * Brush Wellman beryllium claims

* During the West Desert Exchange negotiations, TLA was approached by an independent developer of natural gas storage sites about a portion of the "IPP Block" already being acquired by the agency.

Delta Gas Proposal:
* The property is underlain by 2000-foot thick salt bed, as disclosed by well logs of unproductive exploration well for oil and gas.
* Delta Gas proposal was to excavate salt caverns through solution mining to create commercial natural gas storage facility.
* Commercial demand for gas storage is based on seasonal factors (store in summer, draw down in winter) and general load balancing.
* Delta Gas proposal linked to: (1) proposed Ruby pipeline; (2) potential gas sales to IPP.

Events since 2002:
* Ruby Pipeline Proposal abandoned post-Enron
* Delta Gas purchased by Scottish Power (Enstor)
* Proposal abandoned due to lack of pipeline
* Recent interest from Enstor in reviving proposal
* Potential interest from IPA
    * Carbon sequestration
    * Possible Gas-fired unit?
* Current gas storage price litigation before IBLA.
* Consider RFP or other competitive sale?

8. Chairman's Report (cont'd)

b. Follow-up Report to Board Actions (cont'd)

II. Report on Salt Dome Property (cont'd)

Mr. Andrews stated we have talked with IPP about storing carbon in these salt domes. He has not been able to ascertain whether they want to also store natural gas. Apparently, in the last couple of years, the gas storage business has become more developed. We are looking at an RFP for this area to see if we get some interest in it.

III. Establishing a Schedule for Future Follow-up Reports

Mr. McBrier stated they have gone back through the last few years of Development activities and done an update. When they get the new accounting system, they will be able to present this on a periodic basis. Mr. McBrier gave the Board a handout on these projects. The question is how often do we want to report on these? Do we drop the ones that are finished, etc.? This is a catch-up report. On a go-forward basis, we will report on things that have not been finished and why they have not been finished. It was discussed as to whether we should do a follow-up on a quarterly basis and then do specific follow-up as required or as appropriate.

Ms. Plant stated they also care about how much has been projected to be made on projects and how we are doing so far on a project. Mr. Morris stated he sees this report as something that can answer those questions periodically for these projects. He is also interested in seeing when we reach the goals we projected. He is interested in tracking financial progress of the project during the life of the project. This report doesn't do all that. Mr. McBrier stated that, when the new project accounting system is in place, he will be able to do what Mr. Morris wants. Mr. McKeachnie stated every six months would be fine with him. As projects are sold and completed, he doesn't need to see them again. He is interested in the ones we can do something about.

The Board felt this should be done every six months. We will still follow-up on specific ones as appropriate.

8. Chairman's Report (cont'd)

c. Compensation Sub-Committee Report

Mr. Morris stated this sub-committee did not make as much progress as he would have liked. He has asked Marlow Wilcox, from the State Office of Education, to help him on it. Mr. Wilcox thought that the state had a relationship with the Hay Group and could use them. However, the state doesn't have a contract with them. We can still engage them, but there might be more of an involved process than previously thought. When we get a consultant, we will call a meeting of the sub-committee. Chairman Lee suggested that Mr. Mortensen be replaced on the sub-committee, since he will be going off the Board. Chairman Lee replaced him with Mr. Scales.

d. Incentive Objective Sub-Committee Report

Director Carter gave the Board a report on the meeting of the Incentive Objective Sub-Committee. The sub-committee members are: James Lee, Chair, John Ferry, Gayle McKeachnie, Margaret Bird, and Kevin Carter, with Lynda Belnap as staff.

Summary: The committee met twice and discussed a number of options and considerations. Two types of recommendations were developed: one dealing with the apportionment of the bonus and one proposing eight potential objectives for Fiscal Year 2007.

Recommendation number one: The existing bonus program is divided into two components - - a "short-term" component (based entirely on revenues earned during the fiscal year) and "long-term" component (comprising activities the Administration should complete which improves or maintains our position for future revenue opportunities). The bonus has traditionally been apportioned equally between the two components.

The committee, responding to concerns initially raised by former Board member Ross Matthews and superficially addressed by the recent audit, is recommending further dividing the components of the bonus: one part would continue to be based upon meeting a net income goal; a second part would be based on increases in production; the third component would continue to be based upon completing tasks to enhance long-term income-generating potential.

The committee recommends a ratio this year of 35 percent for the first component, 35 percent for the second component, and 30 percent for the third component.

8. Chairman's Report (cont'd)

d. Incentive Objective Sub-Committee Report (cont'd)

Recommendation number two: After reviewing approximately 20 suggestions, the committee is recommending that the Board further consider the following potential objectives for the "long-term" component of the bonus program:

* Programmatic review of the surface leasing program to bring revenue structure, practices, and procedures in line with current market opportunities. Although this goal was established for FY 2006, the Staff reported to the Board in January that this objective would require more time and will not be accomplished during this fiscal year.

* Programmatic review of surface sales program. Review revenue goals, strategies for land disposal, disposal methodology, financing practices, etc. Although this goal was established for FY 2006, the Staff reported to the Board in January that this objective would require more time and will not be accomplished during this fiscal year.

* Perform an economic and structural analysis to determine if it is feasible for the Administration to enter more deeply into vertical improvements. To what extent should we invest in structures with our partners; should we consider acquiring commercial structure in urban Utah settings, or even constructing such facilities.

* Complete the negotiations to acquire other federal land for our inheld mineral estate in the Hill Creek extension of the Uintah/Ouray Reservation.

* Examine the potential for the Administration to enter into the oil and gas business; taking our product in kind and marketing it or selling it directly to beneficiaries; getting deeper into exploration/development of oil and gas resources; preparing the recently acquired salt dome in Millard County for industry use; pursuing downspacing in existing Trust fields.

* Create a long-term strategy to protect our ability to develop our Washington County properties in light of recent actions by the Water Conservancy District to hinder development on non-private lands.

* Produce an updated Public Relations presentation/video.

* Develop a long-term exit strategy for our lands impacted by the various wilderness proposals.

8. Chairman's Report (cont'd)

d. Incentive Objective Sub-Committee Report (cont'd)

Tasks to be completed:

1. If the Board accepts the first recommendations of the committee, two tasks remain:

   * determine appropriate production-oriented objectives;
   * establish the desired apportionment of bonus for each of the three components.

2. Select the long-term components (this may include all eight listed above, a sub-set of the list, or additional items not currently on the list).

3. Flesh out the selected components so that they clearly identify the result desired by the Board.

4. Establish the amount of bonus which can be earned for completing each of the long-term tasks.

Chairman Lee asked if there was any input as to the proposed ratios? Mr. Morris stated that one of the issues in the audit was how the net income goal is set. He asked how this is set. Director Carter explained that the Board used to set the goal and then go 15 percent above that each year. In the last few years, the monies have been greater, so they have been just making the estimate the best they could as to what a fair goal would be. The Board has not set the goal based on the actual dollars from the previous year.

Mr. Morris asked whether we should be talking about core and non-core revenue - - just having a non-core objective and then not paying for the non-revenue objective? It might look like we are getting awarded for both kinds - - one helping the other. Director Carter stated this is why we are suggesting that there be two levels of revenue. Chairman Lee stated we are trying to address the audit's concerns without doing away with the revenue bonus, which is the actual bottom line for the agency. Director Carter stated he would not recommend the 15 percent increase concept, but the committee did spend much time on what the goal should be. Mr. Morris indicated he thinks this proposal goes half way in addressing what the auditors said. He thinks we either need to "tweek" the goal or justify it. Director Carter noted the committee did not address the dollar amount. Ms. Schneider stated a good starting point might be from the revenue programs in the budget. The committee will pass a recommendation back to the Board for the amount in June.

8. Chairman's Report (cont'd)

d. Incentive Objective Sub-Committee Report (cont'd)

Chairman Lee stated that, in the past, we have waited too long to get the goals in place for Staff to begin working on them. We are trying to get them in place by the June meeting. Mr. Morris stated he thinks the proposed allocation is reasonable. Chairman Lee stated that, if the Board has any objectives they would like to be added to the proposed list, please get them to him very soon so that they can be added.

Mr. Morris noted that one of the arguments we have made in the past that differentiates this agency from others is that we add value to our lands. Other agencies are government, and we are entrepreneurial. He thinks there are case studies that we can look at. He wonders if those themes will be used in these to show where we have added value. Component number two has to have something entrepreneurial added to it. It has to have value-added components.
Mr. Morris stated he feels there should be a strategy on the PR video proposed objective.

The Board had no further comments on this and felt like Staff should move forward with them. Staff will flesh them out and bring it back to the Board next month.

9. Director's Report

a. Director's Update on Issues

I. Discussion of Intention to Implement Fee Schedule Changes

This item was postponed.

II. Update on Nutty Putty Cave Issue

Director Carter reviewed the Nutty Putty issue with the Board through a power-point presentation as follows:

History:
* Extractions over Labor Day weekend - - 2004
* Discussion with Board at September meeting
* Pursuit of Lessee during 2004-2005
* August 2005 tragedy at "Y" Mountain
* Negotiations with interested groups to develop MOU

9. Director's Report (cont'd)

a. Director's Update on Issues (cont'd)

II. Update on Nutty Putty Cave Issue (cont'd)

Provisions of MOU:
* No prohibition of future management activities
* Responsible entity managing access
  * Each entrance gated
  * Entry only by groups supervised by qualified individuals
  * Periodic cleaning/policing
  * No management costs to SITLA

Staff feels this is a good solution of managing this cave.

b. Associate Director's Report

I. Update on Recreational Land Exchange

Mr. John Andrews gave the Board an update on this land exchange. We are asking the Congress to exchange to us about 4400 acres primarily in the Uinta Basin for scenic lands. We have been through a lengthy process of meeting with the Department of Interior, committee staff on the House side, environmentalists, etc. We have mostly reached agreement on issues with all of the entities. We are close enough that Senator Bennett introduced the revised bill last week as S 2278. The sub-committee on Forests and Public Lands will be holding a hearing on the new bill next Wednesday. Mr. Andrews will testify. Post-exchange issues on lands traded to the BLM are still an issue with them. We do have an issue with mineral valuation. We have made the proposal on lands that are currently not leased. We would agree to make the U.S. whole with any future leasing. If a piece of property is leased by them right now, the royalty payable is 1/8, of which half goes back to the State Mineral Leasing Account. In lieu of appraising the mineral estate, we will acquire the land for surface value, agree to pay the U.S. on future production, make the payment to the State Mineral Leasing Account, and hopefully lease the lands for more royalty than they are now. This is somewhat of a risk. If there is a price downswing, it may be harder to do. Mr. Scales stated he doesn't think the market will go down. Mr. Andrews stated there is still some amount of uncertainty as to whether we will get pushed back from the Democrats on the Senate side on this issue. If we get both of these hearings, we are optimistic that we can get the bill enacted this year. The House bill has not moved any. We have been told that we are in line for the next available mark-up date.

9. Director's Report (cont'd)

b. Associate Director's Report (cont'd)

II. Strategic Review of Water Availability Issues

Mr. Andrews stated this is a potential litigation issue and, therefore, should be done in closed session.

Eardley / Morris. Motion approved.

"I move we go into closed session for the discussion of possible litigation."

Roll Call:

Ferry - - yes
Morris - - yes
Mortensen - - yes
Lee - - yes
McKeachnie - - absent at time of vote
Eardley - - yes
Scales - - yes

The Board went into closed session at 11:09 a.m. Those in attendance were all Board members, Ric McBrier, John Andrews, Kim Christy, Michael Brown, Paula Plant, and Lynda Belnap. The Board returned to open session at 12:10 p.m.

c. Oil and Gas Report

I. Update on Objective 2-J - - Hill Creek Extension

Mr. Andrews gave the Board a map showing trust lands in the Grand County portion of the Hill Creek Extension of the Uinta/Ouray Reservation. The Tribe has not allowed any access to anyone in this area. At the time it was created, the Federal statute allowed us to relinquish surface and minerals in the extension and select other lands of equal value. The terrain is very difficult. Our lands are scattered. If the Tribe is not leasing its lands, we have little ability to develop ours. Under the statute that allows us to select replacement lands, the Tribe has been interested in obtaining additional lands themselves. They have a big area inside Hill Creek where the minerals are federal rather than Tribal. The Tribe and our agency have come up with an idea whereby we would relinquish lands in the southern part of the Hill Creek and select lands out of the available BLM lands and then lease those lands to the Tribe. We would have a land position, and the Tribe would be acting as the lessee on the selected lands.

9. Director's Report (cont'd)

c. Oil and Gas Report (cont'd)

I. Update on Objective 2-J - - Hillcreek Extension (cont'd)

We were directed to try to reach an agreement with the Tribe on this issue. There is an agreement in place now. We have not yet formally filed to select the lands. We have been visiting with various people in DOI and BLM to make sure they are briefed on what we are trying to accomplish prior to the exchange being filed. We do intend to file the exchange by the end of the fiscal year. Mr. Andrews stated that all of the lands we are exchanging are unleased at this time.

Mr. Scales stated Flying J has an interest in some of the lands involved, and he would declare a conflict on this issue. Chairman Lee stated this does not require any action by the Board at this time.

d. Surface Group Report

I. Update on Objective 2-C - - Hunter Access

Mr. Christy gave the Board an update on this objective. Hunting throughout the state has developed into great opportunities for landowners. The Division of Wildlife Resources (DWR) has the responsibility and authority to manage the wildlife for the public. Some of it occurs on trust lands and private lands. Different types of programs have evolved to manage this wildlife. One of these is the Cooperative Wildlife Management Units (CWMU) program. He showed the Board a map on limited entry areas. Under the rules, if the private landowners have land in a limited entry hunting unit, they are eligible for that property to share in the revenue. This has not been happening on trust lands. If you consider all the species, it affects about 90 percent of trust lands. There are $10-15,000,000 generated from CWMU's annually.

We have an MOU with DWR which compensates us for hunting on trust lands. This ends next year some time. At a Board retreat last year, it was suggested that we do a biological inventory of our lands. We hired a consultant to help us look at this. He came to the conclusion that our lands are valuable for CWMU's. We have used Greg Simons and Ken Clegg as consultants.

9. Director's Report (cont'd)

d. Surface Group Report (cont'd)

I. Update on Objective 2-C - - Hunter Access (cont'd)

Our agreement with DWR in 1997 was that we would not participate in CWMU's. Just recently we have been able to get the descriptions of the CWMU lands. The CWMU on Phil Pico would not have qualified without our lands, which we didn't know were in that unit. He reviewed some of the findings of the consultants through a power-point presentation. These types of issues were presented to DWR last week. Mr. Ferry and Mr. McKeachnie have been working on this issue with Staff. DWR felt that items were arguable as to how we went about the analyses. We believe that our analyses are reasonable and that the value of TLA's lands are between $1.3 million and $2.3 million. Staff feels we are making progress on this issue. We continue to work with DWR on it.

e. Development Group Report

I. Request For Approval of Development Lease at Cross Hollow -Cedar City

Mr. Rodger Mitchell discussed this with the Board. During the Cross Hollow discussion at the April Board Meeting, Ms. Bird asked Staff to respond in writing to a couple of specific questions. Mr. Mitchell thought it well to respond to those questions, as well as the Board's general questions as follows.

The Alternatives: In the Board Meeting, Mr McKeachnie wondered what alternatives there were to a development lease and why the Staff ended up recommending this particular course. Over the years, as Staff has evaluated alternatives for this parcel, there has been one overriding assumption guiding us. The assumption is that getting Cedar City to release the R&PP lease will ultimately add more value to this parcel than any other factor we could bring to bear. Among other reasons, the amount of buildable property gained, the adjacency to infrastructure, the access gained, and the exposure make this assumption as valid today as when it was made years ago. Without the R&PP release, you end up with 31 percent less buildable land; and the remaining property is so expensive to develop it is arguable whether there would be any development potential in the foreseeable future. Consequently, any evaluation of alternatives needs to be measured against how that alternative affects the release of the R&PP. With that in mind, Staff believes the alternative of breaking the parcel up into smaller increments and selling them off is not viable as Cedar City would vigorously resist, putting the R&PP release in

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

jeopardy. Given the R&PP and the particular challenges of this parcel, planning Staff thinks the decision in front of the Board can be summed up on three alternatives. Do we put this parcel into development now, sell it now, or try to negotiate an agreement with Cedar City that would allow for the release of the R&PP, vesting of the master plan and allow for future development? Mr. Mitchell's knowledge of the City leads him to believe the third alternative, future development, would be a very difficult, but not impossible, task. The following discussion will center on analyzing these three alternatives - - sell now, develop now, or hold for future development.

Revenue Projections for an Immediate Sale: Of the three above-mentioned alternatives, we probably have the best quantifiable data on the sell-now alternative. We had a very competitive proposal process on this parcel. As part of that process, Staff attempted to get cash offers. This effort did result in an offer that is considerably higher than the appraised value. Of course, the offer is subject to getting the R&PP released. The offer is for $17,000,000 with $5,000,000 down and the balance over nine years at seven percent. At a 9.45 percent discount rate, the NPV of this offer is $13,500,000. Alongside this market-based offer, we have an appraisal of $12,585,000 dated January, 2006. As the market is moving rapidly in Cedar City, we have decided to get this appraisal updated to make sure we are dealing with a number that is valid in the current market. However, because our discount rate is higher than the cost of capital in the current development environment and because the appraisal reflects current conditions that are changing, Staff feels both the $12,585,000 and the $13,500,000 values are too conservative to use. After reviewing the economics of their proposal, Staff feels confident we could negotiate an agreement with our development partner that would pay us the $17,000,000 today instead of spreading it over nine years. We will use this $17,000,000 figure as a base value for an immediate sale. With some work, an R&PP release, and a competitive environment, it is not unreasonable to think Staff could get the $45,000 an acre Mr. Christy was successful in obtaining in last month's sale in this area. That site required the building of no offsite infrastructure. So, to equalize the sale, we need only adjust the value for Cross Hollow's projected offsite costs ($3,000,000). This would result in a sale of $25,000,000. We will use this figure as a high-end sale. The probability is we would be somewhere in between these values, so we will plot $22,000,000 as the middle-of-the-road sale. To have a comparative analysis with a development lease, we will need to know what we can expect the Treasurer to accomplish with these funds over the next 15 years.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

If we assume the Treasurer can maintain the returns he has averaged since he was able to invest in equities (1995), we can reasonably expect a return of 5.5 percent. The Trust would have $52,902,287 in 15 years if we were successful in selling the property for $25,000,000. This should be a reasonable number to use when comparing a land sale with revenues created in a development lease.

Revenue Projections for a Development Lease: How would the values of a development lease stand up against this $52.9 million? To get a good comparison, we will need to build a base, high-end and middle-of-the-road cash flow model for a development lease. The cash flow information the Board received prior to the April Board Meeting will serve as a good base. It is a good base because the planning Staff is secure, absent major problems in the marketplace, that these cash flows can be delivered to the Treasurer over the next 15 years. The yearly cash flows are sure to fluctuate, but overall these cash flows are very doable. The planning Staff is secure in these numbers because there are three major factors not built into this base model that give almost sure upside potential to the project. First, there is no price increase built into the base model. There is a three percent annual increase built into the cost side of the equation, but there is no price increase. The second factor that could bring considerable upside to the development is the opportunity to participate in vertical development. The base model is built on lot sales only and does not anticipate Trust participation in any vertical development. Our development partner has indicated they anticipate being involved in upward of 50 percent of the vertical building within this project. Part of the Iron Horse proposal is the Trust will have the opportunity, but not the obligation, to participate in any vertical development the Partnerships participate in. This will allow the Trust the opportunity to significantly increase its revenue during the project. The third factor is the amount of buildable land. Until engineering work is complete, there is no way to know exactly how much buildable land there is. Our development partner has identified 626 acres, and that is the amount built into the base model. However, planning Staff has identified 730 acres that have a slope of 25 percent or less. We should be able to build on most of these slopes, so Staff believes revenues from land sales should increase over the base projections as the project matures. Any one of these factors could add significant revenue to the base model. Also, the base model has already factored in the cost of the water problem developing in Cedar City. Consequently, the planning Staff is confident the project can deliver the revenues projected in the base model.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

To build a high-end cash flow model for the development lease, we need only input some reasonable assumptions on the three upside factors. First, we should input a three percent price increase to match the three percent cost increase already built into the base model. Second, we need to input values for vertical participation. We can reasonably anticipate participating in 25 percent of the vertical development (one-half the anticipated partnership participation) and build in an 18 percent return on the invested value (land value). Third, we can reasonably project 701 buildable acres. Though there are many other factors that could increase revenue to the Trust, these three major factors should give us a good look at what revenues the Trust could expect if the project goes well and markets keep moving forward in terms of price escalation. Again, the probability is the actual cash flow will be somewhere between the base model and the high-end model. Mr. Mitchell showed the Board a chart that plots the Trust's financial position over 15 years, assuming the Treasurer will maintain his average 5.5 percent return and also a land sale at $25,000,000 in order to make a direct comparison of the development lease with a land sale. This is not the traditional way the Board has been looking at values. Traditionally, the Board looks at the cash flows produced only by the development lease and discounts those cash flows by 9.45 percent to get a net present value. Following are the values produced by this method:

NPV of high-end land sale:	$25,000,000
NPV @ 9.45% of high-end development lease	$30,052,196
NPV @ 9.45% of middle-of-the-road development lease	$26,186,255
NPV @ 9.45% of base development lease	$21,952,006

These values differ in two ways from the final values that were shown on the chart. First, they do not factor in any revenue from the Treasurer investing the cash flows as he receives them; and, second, they anticipate the Treasurer would average a 9.45 percent return instead of the 5.5 percent. Though it is not comparing apples to apples, this NPV look is instructive on what assumptions are being made and how the values are affected by those assumptions.

Development Lease Risk Evaluation: Of course, a development lease does carry some risk, where an immediate sale is a "bird in the hand". Most of the Board's questions centered on the risk in a development lease. First, the best way to avoid risk is to get competent, experienced, financially secure people vested and seriously engaged in your project. The Iron Horse proposal would provide all of that. There will always be some level of risk in whatever we do. To keep

9. Director’s Report (cont’d)

e. Development Group Report (cont’d)

I. Request For Approval of Development Lease at Cross Hollow (cont’d)

projects out of trouble, Staff tries to identify, measure, and mitigate risk at many levels. Given you have qualified, honest people working on a project, the risk you can control will be found in the deal structure. With the Iron Horse structure, Staff has tried to protect against downside risk, while creating some upside potential. Staff feels that, by looking in and indexing land values, the downside risk of this proposal is negligible. The Trust will receive its land value even if the overall project loses money. During the April Board Meeting, Mr. Morris asked how much revenue the lands payment along would provide. The land payments alone would produce between $33.2 million and $37.1 million, depending on the acres developed. Selling the land now would produce between $35.5 and $52.9 million dollars. So, the value of the development lease land payments alone will approach the value of an immediate sale, and the Trust would receive these payments even if the project does not make money. That is why Staff feels this particular deal structure protects the downside quite well.

The developer will not continue on the project if he is losing money over the long run. Excluding a major shift in the marketplace, Staff does not see this happening. However, the question does address Ms. Bird’s previous concern on exit strategy. Our exit strategy is simple. We will not subordinate to any financing, no land will be transferred without the base land value being paid, and there will be minimum and maximum land takedowns built into the development lease.

At the last meeting, Mr. Lee brought up the risk of participating in net profits. Staff would have preferred a gross revenue structure and had quite a discussion about this subject. After a thorough venting of the subject, there seemed to be three factors that strongly argued it was advantageous to accept a net profit position. First, the relative risk, when measured against our gross revenue alternative, was minimal. SunCor did propose a gross revenue structure. However, that proposal made the Trust liable for the cost of offsite infrastructure, as well as the construction and operation costs related to the golf course. When measured against this dollar liability and control of that liability, the risk of a net profit position seemed minimal. Second, the deal structure seemed to minimize the risk of accounting manipulation. We would be dealing with honorable, experienced people who would not be in the position they are if they had made a habit of cheating people. Also, Staff felt the Trust is currently capable of tracking net profits and will be adding to that capability over the next couple of years. It also gave us great comfort that

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

one of the partners, NewStreet, would be in the same passive position as the Trust. The third factor that seemed to mitigate the accounting risk is the ability to structure a third-party audit if the Board felt it necessary. When measured against the dollar volume of this project or against the amount of dollars at risk under the SunCor proposal, it was felt $5,000 - $10,000 to audit the books annually would not significantly change the economics or the decision-making matrix. Those three factors, coupled with the fact we have been quite successful with this structure at Canyon Ridge, made Staff comfortable that the risk surrounding net-profit participation could be successfully dealt with and not impact the project.

Staff feels that, through a very competitive process, the market has spoken to the value of this project and that the Iron Horse proposal gives the Trust a very good opportunity to capture upside values while protecting the downside risk. When measured against an immediate sale, Staff feels the economics gained by participating in the development far outweigh any risk involved.

Future Development: The third alternative, hold the land for future development, is a tougher call. We don't have the marketplace giving us good, quantifiable data to measure this alternative. When Staff discussed the reasons why now might be a good time to develop this property, there were three reasons that strongly argued that now is a good time. First, Cedar City feels this property needs to be developed now. Among Cedar City's reasons are infrastructure issues, discouraging leap-frog sprawl, controlling the visual integrity of their southern entrance, etc. The Trust certainly can't make its decisions based on what Cedar City wants, but we do need to recognize the City does hold the key to unleashing the value of this property through the R&PP release and the vesting of densities in the master plan. Staff has also worked very hard to build a trusting, mutually beneficial relationship with the City to protect the value of, not only this parcel, but all the Trust's land holdings around Cedar City. A decision to not develop this property or sell it off would do significant harm to that relationship and the Trust's ability to maximize land values.

The second reason that argues well for developing now is the strong local market. A project this size takes a lot to get it out of the ground and established (capital, experienced people, etc.). It is

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

very difficult to bring the different components together on a project this size and a strong market is essential in that effort. A developer must feel he has a reasonable change to regain some of his capital in the short term, or he won't take the chance. The current strong local market has brought experienced people willing to invest, and this opportunity could be lost for a number of years if the market should happen to soften.

The third, and probably the strongest, reason is Staff feels we are locking in the base land values at a high level mark in the marketplace. As we look around the market and listen to the pundits, there is general agreement that a price adjustment in the housing market is coming. There is just too large a gap between housing costs and the marketplace's ability to pay. The question being asked is whether this bubble will burst or just slowly deflate? The market looks a lot like the market in the mid-'80's when prices adjusted downward around 20 percent. The market did recover after a couple of years, and by the '90's prices had surpassed the highs in the '80's. When you analyze a 20 percent loss in value, you never really recover if you are measuring against opportunity lost at the higher market level. Additionally, values tend to have greater losses in peripheral markets, which Cedar City is, during these periods of adjustments. The old saying is, when the major markets catch a cold, the smaller markets get pneumonia. Staff feels there is a chance Cedar City could catch pneumonia in the next few years, and the probability is they will at least catch a cold. Staff understands this probability is a double-edged sword when looking at going into a project. The Trust's land values may be locked in at a high value, but that does us no good if the project cannot be successful. This problem crystallizes the conundrum we live with when structuring every project (capture value while allowing enough room for the project to be successful). Staff feels the balance in this particular deal structure handles this problem very well. It locks in relatively high land values and allows the Trust to participate in a good portion of the upside while allowing enough flexibility and profit to keep our development partners focused and motivated. This balanced deal structure, coupled with the long-term outlook and financial stability of our development partners, will insure the project's long-term success even though the probability is that some short-term price adjustment will occur.

Conclusion/Recommendations: In conclusion, Staff feels the economics arague that, within all reasonable economic models, a development lease will create more value for the Trust than an immediate sale. If the Board agrees, Staff would suggest it is a good time to put this parcel under development because:

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

1. currently, Cedar City is motivated to help the Trust unleash values tied up on this property;

2. current market conditions allow the Trust the ability to acquire an experienced, financially strong development partner and gives the project an opportunity to get well established on the ground; and

3. the Trust is able to lock in its land value during what is probably a high mark in the market's evolution.

If the Board agrees this is a reasonable time to put this property under development, Staff would recommend the Iron Horse proposal because:

1. it combines the best economics of all the proposals with experienced, financially strong development partners who have a very strong vision for the project;

2. the deal structure provides a balanced approach that protects against downside risk by locking in and indexing land values at a high level while providing realistic upside potential in both profit participation and options to participate in vertical development; and

3. when compared against other proposals, the Iron Horse proposal creates the least overall risk for the Trust.

Mr. Mitchell stated that, in the last couple of days, one of the proposers at Cross Hollow has amended its proposal. This makes Staff hesitant to stay with the recommendation in the above material, which was previously sent to the Board. We need to table this decision at this time. We are prepared to talk abut the dynamics of the proposal. It will need to be in a closed session because of the discussion of valuation of property.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

I. Request For Approval of Development Lease at Cross Hollow (cont'd)

Ferry / Mortensen. Unanimously approved.

"I move we go into closed session for the discussion of property values."

Roll Call:

Ferry - - yes	McKeachnie - - yes
Morris - - yes	Eardley - - yes
Mortensen - - yes	Scales - - yes
Lee - - yes	

The Board went into closed session at 3:16 p.m. Those in attendance were Board members, Kevin Carter, Ric McBrier, Michael Brown, Rodger Mitchell, Paula Plant, and Lynda Belnap. The Board returned to open session at 3:45 p.m.

The Staff reported that the cash offer presented by the Graff Group exceeds the revenue anticipated from the previously reported options, with very little risk. The Staff recommends that we enter into the cash sale option for $33,650,000, after giving the other parties one additional chance to make a cash offer.

McKeachnie / Mortensen. Motion approved.

"I move we approve the Staff's recommendation."

Roll Call:

Ferry - - yes	McKeachnie - - yes
Morris - - abstained	Eardley - - yes
Mortensen - - yes	Scales - - yes
Lee - - yes	

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

II. Francis Foothills Project - - Summit County

Mr. Rodger Mitchell reviewed this with the Board. The location of the property is Section 27, Township 2 South, Range 6 East, containing 160 acres. This parcel is located in the foothills just east of the town of Francis. Currently, this parcel is zoned agricultural allowing one unit per 100 acres.

History: The parcel is land-locked with a long history of access problems surrounding the adjoining property owners and the town of Francis, involving lawsuits, bankruptcy, clouded title, etc. For over five years, the Trust has been working with an adjoining property owner, Randy Butters, to try and solve access problems, as well as plan a development to enhance the value of our respective properties. In April 2005, the Board approved an expenditure of $160,000 to purchase primary and secondary access by reciprocal easements with Mr. Butters and several other landowners. The purchase of the easements was intended to allow for the development of the Trust's property into 10-20 high-end home sites. Though the legal agreements for the easements have been agreed upon, the city of Francis has made it very clear they intend on maintaining their foothills as open space and would vigorously resist any zone change to allow for the development of the Trust's property. Without a reasonable expectation of development, Staff is hesitant to spend the $160,000. The City has proposed a compromise.

The Proposal: The City has indicated they will approve a 76-lot subdivision on the lower foothills property if 280 acres of upper foothills property were dedicated to conservation easements. This would require that the Trust dedicate its160 acres and Mr. Butters dedicate an additional 120 acres to conservation.

The Economics: As compensation for a dedication, Staff has asked for title to any four lots in the subdivision. Staff does not know exactly what the four lots will be worth, but we are confident four fully improved lots will have considerably more value than one very large lot with access and infrastructure problems. It is projected the lots would have a value between $250,000 and $300,000 each when they are completed and ready for sale in 2008 and 2009. Staff is not sure 76 lots will provide the economics Mr. Butters will need to put together this compromise, but Mr. Butters feels he can make it work. It is estimated Mr. Butters will have an improvement cost of over $75,000 per lot as the subdivision is currently planned. With this economic insecurity, it will be essential the Trust keeps its alternatives open and structure this alternative in a way that allows us to not dedicate our land until we are assured the lots can be transferred with improvements and clear title.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

II. Francis Foothills Project - - Summit County (cont'd)

The Alternatives: Staff feels the conservation easement compromise would be the best solution if it can be accomplished. However, if it cannot be accomplished, Staff feels spending the $160,000 to acquire the easements is still a viable alternative. With the access problem solved, the Trust has the option of being patient and waiting for a more sympathetic administration.

Recommendation: It is recommended that the Board give Staff approval to move this property into a conservation easement for four improved lots in the resulting subdivision. It is also recommended the Board leave open the approval to spend the $160,000 to acquire easements if the conservation easement compromise cannot be accomplished.

Mr. Morris asked, if we spent the $160,000 today, would we unlock the access? Mr. Mitchell stated we would. Mr. Morris asked why we didn't put it on the market? We should spend the $160,000 subject to getting an offer of over $1 million. Mr. Mitchell stated he feels the four lots would be more valuable than selling it for what he thinks we could get out of it. Mr. Morris stated he feels we would be making a mistake to put our land in the conservation easement. He feels we should take it off the market and wait five years. If we have to spend the money to get the access, he would recommend spending it.

Mr. Butters appeared and answered some questions for the Board regarding the project. He stated he has worked on this project since 1994. This is a hot spot for the town of Francis. There were some legal issues with the previous owners. He thinks there is a market for the lands, as Mr. Mitchell has explained. The town would prefer not to have access above the development. It is important for Trust Lands to have some easement for access. He feels the proposal is the best we have to get the best value. If this doesn't work, we would go back to the plan Mr. Morris suggested.

There was much discussion of the pros and cons of what we should do on this property. The Board asked if Mr. Butters would give Trust Lands the value of the lands now? Mr. Butters stated he would prefer not to pay that money upfront because he has to pay for infrastructure.

The Board took no action on this item.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

III. Leeds Update - - Washington County

Mr. Curt Gordon gave the Board an update on this project, called Silver Creek, through a power-point presentation as follows:

Silver Creek Look Back:

* 150 acres
* Since 2003 accomplished
    * Annexation
    * Water acquisition
    * Subdivision approval for 115 acres/45 lots
* Beginning value $20K/acre - - $2.3 Million
* Current value $116K/acre - - $13.2 Million
* Some added value due to market

Next Action:

* Issue RFP for sale or development
* Compare alternatives
* Bring back to Board for approval
* Work remaining 35 acres

IV. Sienna Hills Parcel 12 Transaction Amendment

Mr. Gordon reviewed this with the Board through a power-point presentation:

* Board approved sale last December
* 7.2 acres - $2,160,000 plus kicker ($140K)
* New water impact fees (potential)
    * $4300 unit
    * $312,000 impact on project financials
* Buyer not prepared to move forward without risk mitigation

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

IV. Sienna Hills Parcel 12 Transaction Amendment (cont'd)

* Trust impact fee mitigation
  * Leave $312K in escrow to cover risk
  * Trust pays new water impact fees if enacted
  * Kicker moves from eight percent to 10 percent on sales over $190K
  * Potential deal change from $2.3M to $2.0M
    * $320K/acre to $280K/acre
  * With modification, still above appraised value of $1.5M
  * Recommend approval of modification of deal

Mr. Gordon stated there are "mansions" clustered in this area. We have a transaction here to sell this to Dry Canyon Homes for $320,000/acre. Mr. Eardley noted the water district has already started assessing impact fees. Mr. Gordon noted that Washington City has not yet adopted this water fee. He stated this may be a "surprise" to the developer, and they have asked us to help mitigate this. We will leave $312,000 in escrow in case these fees are assessed. Mr. Morris stated that worse-case scenario would be $1.8 million or $250,000/acre. This is still above the appraised value. The value-added is very substantial. Mr. Gordon stated Staff is recommending moving forward with this. He doesn't think we would get anything better if we took it back to the market. It appears the market is softening somewhat.

Morris / Eardley. Unanimously approved.

"I move we approve the recommendation as presented."

Roll Call:

Ferry - - yes
Morris - - yes
Mortensen - - yes
Lee - - yes
McKeachnie - - yes
Eardley - - yes
Scales - - yes

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

V. South Corridor Issues

Mr. McBrier reviewed this issue with the Board. Building a road from the South Block to the airport is around $50 million. There is not enough money to do that. There is much discussion as to where the money is going to come from for this project. There is much pressure from St. George City and us to" show up" and do something. There are many planning issues about which we are concerned. We have been focused on spending money on getting some roads built. We are getting appraisals on the land that UDOT will buy from us. This will probably be between $3-4 million. We have capital and could put together a multi-year capital plan to support the project if we feel the legislature has been supportive of this and will continue to be. Mr. McBrier and Mr Carter are going next week to visit with some legislators and other officials regarding these issues.

We need to have planning that will help us get some of this money back. By tying some entitlements to commitments of money, we feel we can make this a win-win situation for all parties. This is just a heads-up to the Board on money that we are looking at spending.

Director Carter stated that we fully recognize that our objective is to generate revenue for the Trust and not just to be a real estate company to put money into these projects. They have to be prudent investments for us to do them. We will still have to see where the monies go and how much we can spend. The study is looking for matching monies from the federal government.

Mr. Eardley stated that Washington County is sort of "catching its breath" right now. One of the ways to capture the capital is to do what Mr. McBrier has suggested. One of the bad raps Trust Lands has is its reluctance to engage in the infrastructure. Mr. McBrier stated he doesn't feel this is a fair characterization. Mr. Eardley stated he thinks our plans are well-timed, and we need to consider how we will engage in this process to optimize our potential. Mr. McBrier stated Staff will come back at a later time to discuss this further with the Board.

Mr. Morris suggested that for the next meeting we talk about the market place in Washington County. It seems prices are holding firm, but unit sales are down. When he thinks of the audit and public perception of us, he thinks we need to make the case that we are long-term players. We need to talk about the market and then decide on our philosophy. If this market really softens, someone will ask the questions again if development should be a core job of Trust Lands. Mr. Eardley stated Washington County has had sustained growth since the 1960's. He thinks we would be well advised to exchange for all the lands we can in Washington County.

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

VI. Land Values at Eagle Mountain

Ms. Erler gave the Board a power-point presentation on the Eagle Mountain land values.

Master Development Agreement:
* 1300 acres
* Density three units/acre - - 4,000 units
* Dedicated to City:
  * Major road alignments
  * Regional parks (110 acres)
* Capital: $4.1 million to date
  * Water (500 acre feet; $1 million)
  * Sweetwater Road ($1.7 million)
  * Water system ($750,000)
* Impact fee credits: $3.55 million

SITLA Project:
* Flat valley-bottom land
* Entry-level (starter) home
* Time for transaction

Appraisal:
* Land Uses (3)
  * Commercial
  * School sites
  * Residential
    * Single-family (some water)
    * High density
    * Antelope Bench

Commercial and School Land Values:
* Appraisal
  * Commercial
    * 46 acres (two million sq. ft)
    * $0.30/sq. ft.
    * $13,000/acre

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

VI. Land Values at Eagle Mountain (cont'd)

- School Sites
  - 60 acres
  - $16,700/acre

Residential Land Value:

- Appraisal
  - 1,108 acres
  - 500 acre feet of water
  - 4,017 units
  - $17,495/unit average
    - Based on comparables
    - 25 percent premium for 500 units with water
  - Discounted cash flow - - $42.4 million
  - $38,200/acre
- MLS Land Sales (Multiple Listing Service)
  - AG zoning
  - No water
  - 11 parcels - - 100+/- acres
  - $15,600/acre

Discounted Cash Flow Analysis:

Absorption	Appraiser Rates	SITLA Rates
Return on Cap & Discount Rates	7.5% & 9%	9.45%
Appraisal (8 years)	$42.4 M	$40.6 M
2-Year Delay	$35.7 M	$33.9 M
15 years	$30.6 M	$28.9 M

Average: $34.8 Million / $31,400/acre

9. Director's Report (cont'd)

e. Development Group Report (cont'd)

VI. Land Values at Eagle Mountain (cont'd)

Land Value Summary - $/Acre:

Method:	Residential	Property (Weighted Average)
1. Appraisal	$38,200	$36,200
2. MLS Sales	$15,600	$15,585
3. Discounted CF	$31,400	$30,000
School Sites	$16,700	$16,500

Valuation History:

Date	Valuation	Acres	$/Acre	Parcel
1997	Appraisal	160	$ 3,750	Pony Express
1998	Appraisal	160	$ 4,500	Both Parcels
1998	Sale	40	$ 9,250	Mid-Valley
1999	Appraisal	399	$ 8,500	Mid-Valley
2003	Board update	1,300	$15,000	Both parcels
2005	Board update	43	$36,000	Horse lots
2006	Appraisal	1,108	$36,200	Both parcels

Ms. Erler noted that it seems that the land values have been understated as to what we have been realizing in transactions. Mr. McBrier stated we have been working on this quite a while. This is a starter-home community. There is going to be a shortage of water in this valley. He thinks it is time to get our land into the market. They have issued an RFP and engaged cash offers. We have not received any cash offers thus far.

Mr. McKeachnie asked what the major risk on the price would be? Mr. McBrier stated that recent market studies on this market state that this market is just going to keep going. Mr. Morris stated the biggest concern he would have about putting this in the market now is that there is a huge traffic problem there now. Mr. McBrier stated that UDOT is buying easements on the East side of Lehi in hopes of helping this problem. Mr. McBrier stated that also water is a risk. Staff will be back in the future to discuss this further with the Board.

10. Consent Calendar

The Board had no concerns with the following, so they are approved.

a. Amendment to ML 49927-OBA - Earth Energy Resources, Inc. - Grand County

Earth Energy Resources, Inc. ("EER"), the present lessee of record under Bituminous Sands-Asphaltic Sands ("Tar Sands") Lease ML 49927-OBA, is requesting Board approval to amend the referenced lease by adding adjacent trust lands to the original lease agreement. The lands to be added by amending ML 49927-OBA are as follows:

Township 16 south, Range 24 East, SLM	Grand County, 1848.64 acres
Section 4: Lots 3 - 7, SE4NW4, E2SW4	Fund: School
Section 5: Lots 1 - 5, SW4NW4, W2SW4	
Section 6: Lots 1 - 7, S2NE4, SE4NW4, E2SW4, SE4	
Section 7: Lots 1 and 2, NE4, E2NW4	
Section 8: Lots 1 and 2, NW4, S2NE4	

Approval for issuance of ML 49927-OBA was granted by the Board on May 26, 2005, upon the abandonment of unpatented placer mining claims, owned by EER, which encumbered the hydrocarbon resources on lands presently encompassed by ML 49927-OBA. Presently, ML 49927-OBA has a term of 10 years and includes 2,511.66 acres, with an annual rental of $1.00 per acre. Annual revenue returned to the Trust is $2,512.00. Upon production, the lessee will pay a production royalty of 6.5 percent for the first marketable product produced. After the 10th year of the lease agreement, the production royalty will increase one percent to a maximum of 12.5 percent.

EER has offered, as a bonus, an annual minimum advanced royalty payment of $9.00 per acre in addition to the annual rental of $1.00 per acre for the lands included in this amendment proposal. Total payments for the lease of the additional lands will be $10.00/acre annually. By comparison, the one-time average bonus bid for lease of tar sands resources in the Tar Sands Triangle (Wayne and Garfield Counties) was $10.82/acre; and the one-time average bonus bid for lease of tar sands on Asphalt Ridge (Uintah County) was $23.14 per acre. Tar sands leases on Asphalt Ridge and leases in the Tar Sands Triangle currently pay annual rental of $1.00 per acre with no annual advanced minimum royalty payments. Rental and annual advanced minimum royalty payments for the requested additional lands will return $18,490.00 in annual revenue to the Trust.

10. Consent Calendar (cont'd)

a. Amendment to ML 49927-OBA - Earth Energy Resources, Inc. (cont'd)

All the subject lands are presently held under active oil and gas leases and grazing permits. Lands in Sections 4, 5, and 8 are also leased for metalliferous minerals. Annual revenue from rentals and fee payments on the entire 1,848.64 acres are currently $4,054.00. Inclusion of the additional lands by amendment to ML 49927-OBA will increase revenues from the lands by $18,490.00, which is greater than four times revenues now received.

In 2005, EER invested $600,000 in direct expenses and installed equipment valued at approximately $4,000,000 as part of its efforts to explore and conduct a production test of the tar sands resource on lands presently encompassed by ML 49927-OBA. Exploration drilling has revealed that the tar sands deposits are lenticular and inconsistent as to depth, thickness, and quality rather than being uniformly consistent over a large area. This pattern of deposition requires selective recovery of the most economic deposits within close proximity to one centrally located processing facility, rather than mining an entire area within the immediate vicinity of the processing facility and then later relocating the facility to a new area. Proximity of separate deposits to a centrally located processing plant becomes a significant economic factor. The additional lands will create a larger tract from which separate deposits can be mined, thus allowing EER to take advantage of economics of scale inherent in a larger land parcel where economically producible deposits are scattered. Presently, the additional lands are the only available block of trust lands that lie adjacent to the lands already held by EER that will enhance the opportunity for economic recovery of the resource.

Benefit to the Trust: In addition to annual rentals of $1/acre, a substantial advanced minimum royalty payment of $9/acre will be paid annually on the additional lands. This minimum royalty is an annual payment as opposed to the one-time bonus payment that is received when lands are offered under the competitive sealed-bid lease process.

Presently, lease of the selected lands returns to the Trust $4,054. Amending ML 49227-OBA will increase annual revenue on the selected lands by $18,490, for a total annual revenue to the Trust of $22,544 for the 1,848.64-acre parcel.

Given the inconsistent depth, thickness, and quality of the tar sands deposits at PR Springs, a larger lease tract will allow the lessee to take advantage of economics of scale which will increase the likelihood of commercial production over a longer period of tiem.

10. Consent Calendar (cont'd)

a. Amendment to ML 49927-OBA - Earth Energy Resources, Inc. (cont'd)

The substantial annual minimum royalty payment provides obvious incentive to achieve economic production rather than being held for speculation by third parties who may otherwise be awarded a lease under the competitive sealed-bid leasing process.

Should EER not be successful at economic recovery of the resource, relinquishment of this large contiguous block of tar sands-bearing lands will be more attractive to future lessees interested in developing the tar sands resource.

This item is approved by the Board, as there were no comments on the Consent Calendar items.

Board Notification:

b. Amendments to SULA 1391 - Agricultural - - Jaden Edwards

Pursuant to Rule R850-30-1000(2), this is formal notice that the Agency intends to amend the above-referenced special use lease at the request of the lessee by adding several new provisions.

SULA 1392 is an agricultural special use lease issued to Jaden Edwards, d/b/a Wildcat Farms, P.O. Box 1772, Beaver, Utah, 84713. The lease contains 640 acres, more or less, in Section 32, Township 27 south, Range 7 West, SLM. The purpose of the lease is the grazing of livestock including the fencing of the exterior boundary of the section, piping privately owned water to one or more troughs, and cutting trees in those areas which are less steep and which adjoin sagebrush/grass meadow areas, so grass can be planted. The beginning date of the lease was May 1, 2003. The expiration date of the lease will be April 30, 2023.

The lessee is currently working on a project with the USDA Natural Resources Conservation Service to increase the efficiency of their operation. This will entail, among other things, using about 15 acres to cultivate alfalfa with a relocated irrigation pivot. This will, of course, result in an increase in the annual rental. The project will also entail the removal of more of the pinyon/juniper component of the subject property, and the lessee has requested that he be allowed to use mechanical means to accomplish this.

10. Consent Calendar (cont'd)

b. Amendments to SULA 1391 - Agricultural - - Jaden Edwards (cont'd)

The lessee, when informed of current Board policy regarding lease rentals, agreed to include a one-year cancellation clause in the lease with two provisos:

1. The cancellation clause not be applicable to the 15 acres used to cultivate alfalfa and for which he agrees to pay fair-market value.

2. If the lease is cancelled, the lessee will be entitled to the unamortized value of his investment in the range improvements; fencing, seeding, etc., based on the NRCS amortization schedule.

The Agency believes that this action is in the best interest of the trust beneficiary.

The Board voiced no concerns to this amendment.

Meeting adjourned at 3:50 p.m.